

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation

ITEM NUMBER: 7a

ATTACHMENT(S): 9

ACTION: X

MEETING DATE: June 3, 1999

INFORMATION:

PRESENTER: Mr. Derman

I. BOARD POLICY ON BENEFIT ENHANCEMENT LEGISLATION

Using surplus assets to finance the cost of benefits is a departure from the historical policy of the Board. In the past, during the period when the Defined Benefit Program was underfunded, the Board would support legislation that enhances benefits to members, if the legislation also increased contributions to the Teachers' Retirement Fund to finance those benefits.

If the Board adopts the recommendation in the previous item to support legislation that enhances benefits using surplus assets, staff recommends the Board revise its policy for determining whether to support, oppose or be neutral on legislation affecting CalSTRS to reflect that action. The revision in the policy would specify that available surplus assets could be used to expand benefits and services that are not vested. The specific revision to the policy is attached and indicated in the underlined text.

- I. Sponsor or support legislation or regulations which:
 - A. Are consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.
 - B. Expand or improve in a prudent manner the benefits and services provided through the funds administered by the California State Teachers' Retirement System (System) as appropriate for public retirement systems. Expanded benefits and services that are not vested may be funded from available surplus assets of the System.
 - C. Improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan.
 - D. Are consistent with the investment policy adopted by the Board as presented in the State Teachers' Retirement System Statement of Investment Responsibility.

- E. Preserve the assets and minimize the liabilities of the funds administered by the System.
 - F. Reduces inequities or deficiencies in plan design.
 - G. Gives more flexibility to the Board in its administration.
- II. Adopt a neutral position or no position on legislation or regulations which:
- A. Do not significantly or adversely impact the benefits or services provided through the funds administered by the System or the administration of the retirement plans.
 - B. Affect the composition of the Teachers' Retirement Board or the process by which individuals are appointed to serve as members of the Board.
- III. Oppose legislation or regulations which:
- A. Adversely affect the actuarial balance of the funds administered by the System, or result in adverse selection against a retirement plan.
 - B. Expand or improve the benefits or services provided through the funds administered by the System without adequate funding or provide benefits or services that are not appropriate for public retirement plans.
 - C. Deprive members or participants of vested benefits and do not provide equivalent, compensating benefits.
 - D. Is special interest legislation to benefit only one individual or a small group of individuals within a larger group unless the Board determines an inequity exists which the legislation or regulation would correct.
 - E. Restrict or infringe on the plenary authority of the Board to administer the retirement plans as provided in Section 17 or Article XVI of the California State Constitution.
 - F. Restrict the investment authority of the Board or are inconsistent with the investment policy adopted by the Board as presented in the State Teachers' Retirement System Statement of Investment Responsibility.
 - G. Appropriate amounts from the funds administered by the System for purposes that are not solely in the best interest of the members, participants, or beneficiaries of the retirement plans.

- H. Endanger the Trust or the tax-exempt status of retirement plans administered by the System and the deferred treatment of income tax on employer contributions to the plans and related earnings.
- I. Is inconsistent with provisions of Section 403(b) of the Internal Revenue Code of 1986 and the Revenue and Taxation Code that are applicable to the System's annuity contract and custodial account.
- J. Conflict with the System's strategic directions established by the Board.

II. STATE LEGISLATION

1999 Legislative Proposal

Staff recommends the Teachers' Retirement Board sponsor the following legislative proposal. A summary of the problem and proposed solution is attached.

<u>Attachment</u>	<u>Proposal Number</u>	<u>Subject</u>
1	99-H	Gainsharing

Summary

Staff has prepared the attached analyses and recommended positions on the following measures for the Board's consideration:

<u>Attachment</u>	<u>Bill Number</u>	<u>Author</u>	<u>Subject</u>
2	AB 596	Honda	Service credit for Peace Corps and VISTA service
3	AB 724	Dutra	Y2K remediation in state agencies

In addition, analyses and recommended positions on the following five measures the Board deferred action on at the April meeting are attached:

4	AB 684	Honda	Compounded COLA
5	AB 821	PER&SS	One-year final compensation
6	SB 39	Baca	Enhanced career bonus

7	SB 437	Rainey	Restoration of surviving spouse benefits eliminated due to remarriage
8	SB 833	Ortiz	Apply enhanced benefits to some existing retired members
9			Legislative Summary

STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR APPROVAL OF PROPOSED LEGISLATION

BRANCH: External Affairs and Program Development

DIVISION: Legislation, Planning and Program Development Division

PROPOSAL TITLE: Gainsharing

PROBLEM:

With the elimination of the unfunded liability associated with the pre-1999 benefits, the Defined Benefit (DB) Program will generate excess earnings that result in actuarial assets that exceed the actuarial liability of the program. At the same time, DB Program members still face gaps in the benefits provided to them to meet their economic needs and retirement security.

PROPOSED SOLUTION:

Authorize the Board to allocate excess investment earnings, as determined by the actuary, in excess of the amount needed to maintain full funding of the DB Program and maintain a reasonable reserve against adverse experience, to provide ad-hoc "gainsharing" benefits to active and retired members of the DB Program.

FISCAL IMPACT:

Program Costs: Costs for increased benefits would be paid from investment earnings that exceed the amount anticipated in the actuarial valuation and the amount needed to maintain full funding status. During the 1997-98 fiscal year, a total of \$3.5 billion in excess earnings was generated. After reserving funds to maintain full funding of the program and to amortize the benefit enhancement shortfall, up to \$2.1 billion could be used for gainsharing programs.

Administrative Costs: Costs to individual programs would depend on which benefits the Board chooses to fund.

Potential Impact to Other STRS Branches/Divisions:

Potential impact depending on specific allocation method adopted.

Proposal Prepared By:

Name: Ed Derman

Phone: 229-3727

Profs ID: STDERMAN

Assembly Bill 596

Assembly Member Honda (As Amended 4/27/99)

Position:

Neutral, if amended (Staff Recommendation)

Proponents:

Author

Opponents:

None known

SUMMARY

AB 596 authorizes a CalSTRS member to purchase up to three years credit in CalSTRS for time served as a volunteer in the Peace Corps or VISTA. The bill disallows such a credit if the member received or is eligible to receive credit for that same time in the Cash Balance (CB) Benefit Program, or other retirement system.

HISTORY

SB 1027 (Chapter 569, Statutes of 1997) authorizes CalSTRS members to purchase additional service credit for out-of-state public school employment, effective 1/1/99.

SB 2126 (Chapter 1076, Statutes of 1998) permits CalSTRS members with at least five years of credited service to purchase up to five years of nonqualified service credit.

CURRENT PRACTICE

Current law provides for the purchase of various types of service credit by a member, including:

- Nonqualified service, or "air-time"
- Sabbatical leave
- Certain active military leave
- Prior service with California State University, a publicly supported and administered college or university, or a California Community College
- A certified position at a child care center
- Maternity/paternity leave
- Approved leave to participate in a specified federal educational and cultural leave program
- Family Care and Medical Leave Act
- Certificated position at Indian school in California
- Certificated position with Job Corps
- Teaching position at the School for the Blind or the School for the Deaf

The amount of service credit purchased in these categories is subject to limitations specified in law. All service credit is subject to payment of contributions prior to retirement by the member electing to purchase the additional service credit. In addition, eligibility for any of the categories is limited to persons who have not received or are eligible to receive credit for the time under the Cash Balance (CB) Benefit Program or another retirement system.

DISCUSSION

AB 596 allows a member to elect to receive credit for time served, not to exceed three years, as a volunteer in the Peace Corps or Vista, unless the member has received or is eligible to receive credit for that time in the CB Benefit Program.

With the exception of nonqualified service (or “airtime”), the type of service authorized to be purchased by CalSTRS members for the DB Program has some relationship to a teaching career. This relationship can be in terms of (1) providing teaching service elsewhere, (2) interrupting a teaching career to provide a specific service, such as military service, or (3) taking a leave for a specific purpose, such as sabbatical or maternity/paternity leave. In contrast, the service that could be purchased under AB 596 does not have to be related to providing any teaching service, nor is it necessarily provided during a break from teaching in the California public schools.

In addition, in its current form, the service purchased under AB 596 could be used to qualify for the .2% career bonus, if it increased a member’s creditable service to 30 years or more. Because the bill does not require the Peace Corps or VISTA service be related to teaching, it would not be consistent with the underlying intent of the career bonus to permit the use of such permissive service for such purposes. In addition, the additional cost associated with using Peace Corps or VISTA service to qualify for the career bonus would not be reflected in the cost charged to the purchasing member.

FISCAL IMPACT

Benefit Program- The provisions of AB 596 which allow a CalSTRS member to elect to purchase service credit are permissive in nature and, as a result, it is difficult to estimate participation. Under current law, the costs are to be paid by the employee purchasing service prior to retirement. Consequently, the increase in benefit payments would be offset by employee contributions to the Teachers' Retirement Fund (TRF), and generally would not result in a net cost to the Fund. If, however, the service qualified the member for the career bonus, the additional cost of that increased benefit would not be reflected in the cost charged to the member for the service.

Administration- CalSTRS staff indicates that it could absorb one-time costs of \$20,000 and ongoing costs to implement this proposal.

RECOMMENDATION - Neutral, if amended

Staff recommends the Board adopt a neutral position on AB 596 if the bill is amended to require that the Peace Corps or VISTA service be certificated in nature and provided during a break in service subject to coverage by the DB Program, and the member returns to creditable service. This is consistent with existing requirements imposed on members purchasing federal Job Corps service. If the bill is not amended to require the purchased service to be certificated in nature, the purchased service should not be used to determine eligibility for the career bonus.

Assembly Bill 724

Assembly Member Dutra (As Amended 4-27-99)

Position:

Neutral, if amended (Staff Recommendation)

Proponents:

Author

Opponents:

None known

SUMMARY

AB 724 enacts significant changes to existing practices and policies of state agencies regarding remediation of potential risks resulting from the "Year 2000 (Y2K) Problem". The provisions affecting CalSTRS

- allow agencies to make payments that currently are due in January 2000 in December 1999, and
- direct the State Personnel Board and Department of Personnel Administration to create a worker pool of state employees to provide assistance to other state agencies who require temporary help to address Y2K problems.

HISTORY

Information technology departments, both public and private, have been challenged by the possibility of computer failures as a result of the coming millennium. Many computer programs were written to identify only the final two digits of the year. There is a concern that many programs that run the state's vast technology will mis-identify the "00" in 2000 as 1900 and will be unable to function properly. CalSTRS has had a Y2K Compliance Project in place since 1996-97. The CalSTRS Information Technology Services Division (ITSD) has reported that CalSTRS is Y2K compliant and participated in a Detailed Departmental Assessment administered by the Department of Information Technology the first week of May, 1999.

CURRENT PRACTICE

Pursuant to existing agreements with the Department of Information Technology (DOIT), the Teachers' Retirement Board maintains control of the administration and all other CalSTRS technology projects. CalSTRS has established program procedures and policies to address the Y2K Problem. In correspondence with CalSTRS, DOIT has concurred that the ultimate responsibility for CalSTRS' Y2K readiness belongs to CalSTRS.

Nonetheless, CalSTRS has voluntarily provided to DOIT periodic updates of its Y2K efforts to permit DOIT to monitor a comprehensive view of the State's Y2K status. Currently, state departments are addressing Y2K readiness on an individual basis. There is no worker pool to draw from other than private consultants approved in the Master Service Agreement list.

DISCUSSION

The bill makes the following changes which would have no significant impact on CalSTRS operations; and are not discussed further in this analysis.

1. Specifies that a computing problem or accounting failure resulting from Y2K problems can be considered "reasonable cause" for state agencies to dispute invoices submitted under the California Prompt Payment Act.
2. Assigns the Office of Emergency Services (OES) to serve as the central agency in state government for the emergency reporting of all disasters related to, or potentially related to, the Y2K Problem and to coordinate the notification of state and local agencies that may be required to respond to Y2K emergency situations as they arise.
3. Requires the California Emergency Council to implement a Y2K Problem public awareness campaign and appropriates \$2 million from the General Fund for that purpose. Appropriates an additional \$1,571,000 to the Trade and Commerce Agency to award competitive grants to organizations proposing outreach, assessment and remediation of the Y2K Problem.
4. Authorizes each state agency or department and political subdivision of the state to isolate any of its automated applications, computer hardware, or networking devices for nonproprietary networks, input streams, power sources, or other devices from 3:00 a.m. on December 31, 1999 to noon, January 1, 2000, inclusive if the governor or other specified official grants written authorization.
5. Permits any public entity to request information regarding the Y2K Problem from any contractor who is under contract to provide, or was at any time under contract to provide, any project, materials, supplies, equipment, property, or services to the state. Exempts for four years all responses by a contractor to an information request by a state agency from Public Records Act disclosure provisions when that contractor's response is sent within 30 calendar days to the requesting public entity.
6. Permits an employee to carry over more vacation credits than the prescribed maximum if the employee is prevented from taking vacation because the employee is assigned to work related to the Y2K Problem.

AB 724 also requires the State Personnel Board to develop guidelines for, and the Department of Personnel Administration to implement, a Y2K Problem worker pool that permits transfers of state employees, without penalty to the state agency or worker, for the purposes of remediating the Y2K Problem in state agencies not currently Y2K compliant. Under AB 724, CalSTRS programmer/analysts could be redirected to other state agencies to work on the Y2K Problem in the other agencies. In an effort to gain

technical knowledge and provide assistance with development work, most programmer/analysts at CalSTRS have been assigned to work on START, which currently is scheduled to go on-line in March 2000. Assignment of CalSTRS employees to other state agencies by DOIT could cause delays and increase costs to the START project.

AB 724 also permits agencies, such as CalSTRS, to make payments in December 1999 that otherwise would be paid in January 2000. Allowing the payment of January 2000 benefits in December 1999, subject to approval by the recipient, would have a significant impact on CalSTRS' administration because it would be extremely difficult to administer and automate this policy on an individual basis. Making these payments in December also would increase the 1999 taxable income of CalSTRS benefit recipients. Given the current status of Y2K compliance of CalSTRS, the administrative complexity of making accelerated payments on a selective basis, and the adverse tax implications of such payments, CalSTRS staff would not recommend utilizing the authority provided in the bill to accelerate benefit payments.

FISCAL IMPACT

Benefit Program - There are no program costs, nor savings as a result of this bill.

Administrative - Participation in the Y2K Worker Pool has the potential to delay implementation and increase costs of the START Project. Because the level of participation in the worker pool cannot be determined, the fiscal impact is unknown. Hourly rates charged by the contractor familiar with START begin at \$120 per hour. If CalSTRS is forced to replace reassigned programmers with private contractors, the cost will be substantial.

RECOMMENDATION

Neutral, if amended to exempt CalSTRS from participation in the Y2K Worker Pool. This would permit CalSTRS to continue its current plan to activate the START Project in March 2000 without a threat of resources being diverted to other agencies.

Assembly Bill 684

Assembly Member Honda (As Introduced 2/23/99)

Position:

Support, if amended (Staff Recommendation)

Proponents:

CFT

Opponents:

None known

SUMMARY

Changes the annual “2% improvement factor” applied to benefit payments from the California State Teacher’s Retirement System (CalSTRS) Defined Benefit (DB) Program from a 2% simple COLA to a 2% compounded COLA. The change would be effective September 1, 2001.

HISTORY

Chapter 1305, Statutes of 1971 (AB 543--Barnes) established a 2% simple annual improvement factor, beginning September 1, 1973.

AB 2911 (Epple) of 1990 would have compounded CalSTRS’ benefit improvement factor, funded through increased employer contributions, but failed passage in the Assembly Ways and Means Committee.

SB 2016 (O’Connell) of 1995 would have compounded the 2% improvement factor. SB 2016 was held in Senate Appropriations Committee.

AB 884 (Honda) of 1997, identical to this bill, was held in Senate Appropriations Committee. The Teachers’ Retirement Board adopted a Support if amended position to identify a funding source.

CURRENT PRACTICE

Under current law, the CalSTRS DB Program benefit payments are increased by a 2% improvement factor each year beginning on September 1 following the first anniversary of the effective date of the benefit. The factor, however, is not compounded. (In contrast, CalPERS adjusts allowances by up to 2% annually, and that increase is compounded.)

DISCUSSION

CalSTRS' current 2% simple benefit improvement factor generally has not kept pace with inflation over the years. Retired members and other benefit recipients, however, receive supplemental payments when their allowance has eroded to 75% of the purchasing power of the original allowance. This is currently 18 years after retirement, based on recent inflation experience. The compounded improvement factor proposed by AB 684 would be applied beginning September 1, 2001, to all current and future benefits payable and would provide improved protection against inflation for benefit recipients not receiving purchasing power payments.

FISCAL IMPACT

Benefit Program - Currently there are an estimated 158,000 individuals receiving benefits from the System's DB Program. The vast majority of these recipients receive an annual 2% improvement factor.

The estimated additional costs in current dollars for compounding the 2% improvement factor would be nearly \$2.9 billion over 30 years. Financing these costs over that time period would require increased contributions equal to 1.107% of payroll. This is projected to be equivalent to \$207 million in increased annual contributions initially, beginning in 2001-02, and will increase annually as payrolls increase. AB 684 does not provide funding for the increased cost of compounding the improvement factor.

This cost would be partially offset by a decrease in the amount of supplemental payments paid from the Supplemental Benefit Maintenance Account because fewer benefit recipients would have allowances with purchasing power below 75%. The savings to the SBMA would be equal to \$5.7 million over the next 30 years. Because purchasing power payments are paid from a different source, however, these offsetting savings would not affect the impact of the compounded COLA on the Teachers' Retirement Fund. The savings in the supplemental payments would, however, extend the amount of time that the funding for supplemental payments is sufficient to maintain 75% purchasing power.

Administrative - There would be one-time administrative costs for implementing this legislation of up to \$200,000 including development, testing and implementation of modifications to the automated system and updating procedures.

RECOMMENDATION—Support, if amended

Staff recommends the Board support the bill, if it is amended to provide funding for the benefits provided in the bill.

Assembly Bill 821

Assembly PER&SS Committee (As Amended 4/13/99)

Position:

Support, if amended (Staff Recommendation)

Proponents:

**CTA, CFT, & UTLA (Co-Sponsors)
FACCC**

Opponents:

None known

SUMMARY

AB 821 changes the definition of “final compensation” from the highest average annual compensation earnable by a member during any period of three consecutive school years to any period of 12 consecutive months. The bill makes a similar change in the definition of final compensation for classified school employees, who are covered under CalPERS. The latter provision does not affect CalSTRS, and is not addressed in this analysis.

HISTORY

Chapter 1006, Statutes of 1998 (AB 1102-Knox) would have authorized one-year final compensation. That provision was removed from the bill while it was in Senate Appropriations.

SB 414 (Roberti) of 1993 (Vetoed) would have provided for employers to pay for one-year final compensation benefit, as required by the TRB. The Board adopted a Support position.

Chapter 1184, Statutes of 1989 (AB 123-Elder) authorizes an allowance based on one-year final compensation to teachers who spent 60% or more of the last ten years of their career as classroom teachers. The employer must pay the actuarial difference between the one-year final compensation and the three-year compensation and is subject to a collective bargaining agreement applied to all teachers in the district. The Board adopted an Oppose position because the bill created benefit inequities and would create substantial increases in administrative costs.

AB 2882 (Elder) of 1988 (Vetoed) would have defined “final compensation” as the highest annual compensation earnable by a classroom teacher during any 12 consecutive months. The Board adopted an Oppose position because it would have provided a major unfunded benefit increase, raised program costs, and damaged the funding condition of CalSTRS.

SUMMARY OF LATEST AMENDMENTS

The April 13 amendments specify that the cost of the benefit enhancement is to be paid from the Teachers' Retirement Fund (TRF). In the absence of a specific alternative funding source, however, the TRF would have funded the cost of the benefit even without this new provision.

CURRENT PRACTICE

Generally, final compensation is defined as the highest average annual compensation earnable by a member during any period of three consecutive years while an active member of the Defined Benefit Program. For members whose salary has been reduced because of a reduction of school funds, final compensation may be defined as the highest average annual compensation earnable during any three "non-consecutive" 12-month periods. Basing final compensation on one 12 month period, (known as "one-year final compensation"), is available to members who retire, become disabled, or die after June 30, 1990 and, during the last ten years of employment with the same employer, provided 60 percent or more of their contract time in direct classroom instruction. The member must be employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable to all classroom teachers, as defined. The written agreement must include a mechanism to pay the actuarial difference between the "one-year final compensation" and the "three-year final compensation", plus CalSTRS' administrative costs.

DISCUSSION

Changing the definition of final compensation from a three-year average to one year for all CalSTRS members would create a basis of determining final compensation consistent with that used for state workers covered by CalPERS, as well as an equitable method for all CalSTRS members.

Changing to one-year final compensation could create a greater need for monitoring the restructuring of contracts in the last year of compensation. In response to similar concerns, the Board supported the concept of one-year final compensation that was in the August 4, 1998 version of AB 1102, if it was amended to prevent an extraordinary increase in reportable salary by limiting the amount of final compensation to the amount earnable in the prior year, increased by the percentage increase paid to the employer's members in general. This limitation would not have applied if the retiring member had changed employers or received a promotion during the final compensation period.

FISCAL IMPACT

Benefit Program - The estimated additional cost over 30 years, in current dollars, to pay benefits based on one-year final compensation for all members would be about \$5.114 billion. Financing this cost over 30 years would require an increase in annual contributions equal to 1.904% of payroll. Given current payroll levels, this would result in a required annual increase of about \$336 million initially, with that amount increasing each year as payrolls increase. AB 821 specifies these funds are to be paid from the Teachers' Retirement Fund.

Administrative - CalSTRS anticipates that it could absorb any increased effort necessary to implement this proposal.

RECOMMENDATION—Support, if amended

Staff recommends the Board support the bill, if it is amended to provide funding for the benefits provided in the bill.

Senate Bill 39

Senator Baca (As Amended 4/19/99)

Position:

Support, if amended (Staff Recommendation)

Proponents:

CTA (Sponsor), CFT, ACSE, CRTA

Opponents:

None known

SUMMARY

Increases the career bonus for members with 29 or more years of credited service who retire on or after January 1, 2000.

HISTORY

Chapter 1006, Statutes of 1998, (AB 1102--Knox) provided a career bonus of .2% of final compensation per year of credited service up to a combined age factor and career bonus of 2.4% for members with 30 or more years of credited service who retire on or after January 1, 1999. The Board co-sponsored this bill.

SUMMARY OF LATEST AMENDMENTS

The April 19 amendments to SB 39 are technical changes to clarify the imposition of the 2.4% cap on the age factor and career bonus.

CURRENT PRACTICE

Currently, the CalSTRS retirement allowance is based on years of credited service, age at retirement, and final compensation. A member retiring at the age of 60 receives an allowance equal to 2% of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60. The percentage for a member retiring on or after January 1, 1999 and after the age of 60 increases up to a maximum of 2.4% at age 63.

An additional allowance of two-tenths of one percent of final compensation for each year of credited service, up to a maximum age factor and career bonus of 2.4 percent, is also payable to members who have earned 30 years of credited service and who retire on or after January 1, 1999. This is generally referred to as the "career bonus".

DISCUSSION

SB 39 expands the career bonus for members retiring on or after January 1, 2000, by applying it to members with 29 years of credited service and increasing the bonus after 30 and 31 years of credited service. The age factor, when combined both with the current and proposed career bonuses, could not exceed 2.4 percent. The chart below illustrates the changes to the percentages under the proposed legislation.

Years of service credit	Current percentage	SB 39 percentage
29	0	.1%
30	.2%	.3%
31	.2%	.4%

The sponsor's stated goal is to create a retirement system that calculates benefits based more on the length of the career rather than the age at retirement. Expanding the career bonus will be a step toward that goal by increasing the impact of career length on the member's final benefit. It should also be noted that the change would reduce the age at which a member could reach the maximum allowance from the current 61½ to age 60, if the member had at least 31 years of service.

FISCAL IMPACT

Benefit program – The total estimated cost of this benefit in current dollars over the next 30 years is \$1.157 billion. Financing this benefit over that time period with increased contributions would require an increase of .407% of payroll for 30 years. This would result in a required annual increase of \$72 million initially, with that amount increasing annually as payrolls increase. The bill does not provide increases in any contributions to finance the cost of the benefit.

Administrative – CalSTRS anticipates that it could absorb any increased administrative cost to implement this proposal.

RECOMMENDATION—Support, if amended

Staff recommends the Board support the bill, if it is amended to provide funding for the benefits provided in the bill.

Senate Bill 437

Senator Rainey (As Amended 4/5/99)

Position:

Support, if amended (Staff Recommendation)

Proponents:

None known

Opponents:

None known

SUMMARY

SB 437 restores benefits paid in the future to a surviving spouse of a deceased CalSTRS member if the surviving spouse previously lost entitlement to survivor benefits due to remarriage prior to October 16, 1992.

HISTORY

Prior to October 15, 1992, CalSTRS had just one program to provide benefits to families of members who died before retirement. Under that program, the designated beneficiary or surviving spouse of a deceased member received a \$2,000 lump-sum death payment. A continuing monthly allowance was provided to the surviving spouse equal to 40% of the member's final compensation plus an additional 10% of the member's final compensation for each eligible dependent child, up to a maximum of 90% of the member's final compensation. This allowance ceased when the youngest child attained the age of 18, the youngest child was between age 18 to 22 and discontinued full-time school attendance, or marries. Upon reaching age 60, if there are no dependent children, the surviving spouse would receive an allowance equal to the allowance payable under Option 3. Any allowance being paid to the surviving spouse was terminated if the surviving spouse remarried.

Chapter 1166, Statutes of 1992 (SB 1885-Green) was part of a package of legislation that created a new disability and survivor benefit program for new members and electing existing members. One of the provisions of Chapter 1166 repealed the provision that terminated the allowance payable to a surviving spouse when the surviving spouse remarried. It did not, however, restore the benefits of these surviving spouses that had previously been terminated.

CURRENT PRACTICE

Prior to October 16, 1992, a surviving spouse of a member receiving a survivor benefit allowance lost his or her benefits upon remarriage. Under existing law, a surviving spouse of a deceased member who lost benefits due to remarriage is not entitled to resume benefits payments.

DISCUSSION

SB 437 provides that the surviving spouse of a deceased member who previously lost entitlement to benefits due to remarriage is entitled to resume payment of the benefits, effective January 1, 2000, or the first of the month following receipt by the Teachers' Retirement Board of a written application for resumption of benefits, whichever date is later.

The bill provides that the amount of the benefit payable will be calculated as though the benefit had been paid without interruption from the date of remarriage through the date the benefit is resumed. As a result, the restored benefit would reflect any cost-of-living adjustments that would have been added to the allowance, if the allowance had not been terminated.

Under SB 437, the Board has no duty to identify, locate, or notify a remarried spouse whom previously lost entitlement about his or her rights to resume benefits. Likewise, the bill specifies that the Board has no duty to provide the name or address of any remarried spouse to any person, agency, or entity for the purpose of notifying those who may be eligible to resume benefits. The bill states that nothing in the bill should be construed to imply that the benefits addressed in SB 437 will be paid retroactively.

FISCAL IMPACT

Benefit Program - At least 96 individuals remarried prior to October 16, 1992 and would be eligible to resume payments under the provisions of SB 437. In addition to these 96 individuals, there are 345 surviving spouses that began receiving benefits prior to October 16, 1992 and currently continue to receive benefits, who may or may not have remarried. The total estimated costs in current dollars of the resumed benefits available under SB 437 to the 96 to 441 individuals who may be eligible is about \$12 million to \$56 million. Financing these costs would require an increase in annual contributions equal to .004% and .017% of payroll, respectively. This is equivalent to \$664,000 to \$3 million initially, which would increase annually with increased payrolls. The bill does not provide any funding for these benefits.

Administrative - The bill does not require CalSTRS to locate potentially eligible surviving spouses that remarried, nor provide this information to third parties. Any costs incurred to process applications for restored benefits would be approximately \$67,000 on an ongoing basis and absorbable within existing resources. This estimate includes staff work identifying eligible surviving spouses and the processing for those resuming payments.

RECOMMENDATION—Support, if amended

Staff recommends the Board support the bill, if it is amended to provide funding for the benefits provided in the bill.

Senate Bill 833

Senator Ortiz (As Amended 5/6/99)

Position:

Support (Staff Recommendation)

Proponents:

ACSA, ART, CTA, CFT, CRTA, FACCC, F.A.I.R

Opponents:

None known

SUMMARY

SB 833 provides to CalSTRS members who retired in 1998 or received their first check in 1998 the benefit enhancements currently available to members who retired after 1999. It also increases the benefits of those members who are (1) currently retired but return to service, and (2) whose total credited service equals or exceeds 30 years, to reflect the "career bonus" in their entire allowance.

HISTORY

Chapter 966, Statutes of 1998 (AB 1150--Prenter) increased the maximum benefit factor of 2% at age 60 to 2.4% at age 63 for members who retire on or after January 1, 1999.

Chapter 1006, Statutes of 1998 (AB 1102--Knox) extended eligibility to receive credit at retirement for unused sick leave to those who became members on and after July 1, 1980, and who retire on or after January 1, 1999, and provides a career bonus of .2% of final compensation per year of credited service, up to a combined age factor and career bonus of 2.4%, for members with 30 or more years of credited service who retire on or after January 1, 1999.

SUMMARY OF LATEST AMENDMENTS

The May 6 amendments make technical changes concerning reinstatement of members who retired in 1998.

CURRENT PRACTICE

The CalSTRS retirement allowance is based on years of credited service, age at retirement, and final compensation. A member retiring at the age of 60 receives an allowance equal to 2% of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60. The percentage for a member retiring on or after January 1, 1999 increases after age 60 up to a maximum of 2.4% at age 63.

An additional allowance of two-tenths of one percent of final compensation for each year of credited service, up to a maximum age factor and career bonus of 2.4 percent, is also payable to members who have earned 30 years of credited service and who retire on or after January 1, 1999. This additional .2% is generally referred to as the “career bonus”.

A member who has terminated a service retirement allowance may, at least one year after the termination of the initial allowance, subsequently retire a second time. Upon the subsequent retirement, the member receives the sum of (1) the allowance the member was receiving at the time of the initial termination and (2) an allowance calculated using age and final compensation factors prescribed in current law, for the credited service performed subsequent to termination of the original retirement.

DISCUSSION

The benefit enhancements enacted in 1998 were effective only to CalSTRS members who retired on or after January 1, 1999, the effective date of the legislation. Following the enactment of these bills into law, many CalSTRS members who retired in 1998 objected that the benefits applied only to future retired members. This group of retirees claimed that they were not apprised of the pending legislation and that they would have delayed their retirement if they had been aware of it in order to receive higher retirement allowances. These members perceive an inequity was created by excluding recently retired members. This bill provides the new benefits to any CalSTRS member who retired for service in 1998 or received their first allowance check in 1998. This would affect about 5,933 of the 7,824 members who retired during that time period (the balance of the members were not old enough or did not have sufficient service credit to be affected by the enhancements, or had initiated CalSTRS membership prior to July 1, 1980).

In addition, under current law, a member who has terminated a service or retirement allowance may, at least one year after the termination of the initial allowance, subsequently retire a second time. Upon the subsequent retirement, the member would receive the sum of (1) the allowance the member was receiving at the time of the initial termination and (2) the allowance calculated on the age of the subsequent retirement, the amount of service credited after the termination of the benefit and the final compensation applicable to the subsequent service.

Under the bill, a member who terminated a service retirement allowance after 1998, provided at least one year of creditable service and whose total career equaled at least 30 years of credited service would, upon the subsequent retirement, receive a similar multiple retirement allowance as under current law. The only difference is that, under SB 833, the age factor on that original allowance would be increased by .2 percentage points, in recognition of the career bonus for accruing 30 or more years of service.

FISCAL IMPACT

Benefit Program

1998 Retirees. Current estimates by the actuary indicate that the total cost of extending the enhanced benefits to members who retired in 1998 or first received a check in 1998 would be

\$305 million over 30 years, in current dollars. Financing these costs over 30 years would require increased contributions equal to 0.090% of payroll. This is equivalent to \$16 million initially, with increasing contributions in future years as payrolls increase. The bill does not provide for an increase in contributions to fund these costs.

Pre-1998 Retirees. Current estimates by the actuary indicate that the total cost of providing the career bonus to members who retired before 1998, reinstate and work sufficient years to accrue a total of 30 or more years of service, would be \$64 million over 30 years in current dollars, if 1,000 members reinstate under the bill (historically, only 50 members reinstate annually). Financing these costs over 30 years would require increased contributions equal to .019% of payroll. This is equivalent to about \$3 million initially, with increasing contributions in future years as payrolls increase. The bill does not provide for an increase in contributions to fund these costs.

Administrative – No additional costs.

RECOMMENDATION—Support

Staff recommends the Board support the bill. The Teachers' Retirement Board has historically supported benefit improvement legislation for its members. This corrects a perceived inequity.

LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

<u>ABBREVIATION</u>	<u>ORGANIZATION</u>
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACSA	Association of California School Administrators
AFSCME	American Association of State, County and Municipal Employees
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
ART	Association of Retired Teachers
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CalPERS	California Public Employees Retirement System
CalPIRG	California Public Interest Research Group
CalSTRS	California State Teachers' Retirement System
CASBO	California Association of School Business Officers
CCA	Community College Association
CCAE	California Council for Adult Education
CCC	California Community Colleges
CFA	California Faculty Association
CFT	California Federation of Teachers
CPCA	California Police Chiefs' Association
CPFFA	California Professional Firefighters Association
CPOA	California Peace Officers' Association
CRTA	California Retired Teachers Association
CSAC	California State Association of Counties
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
F.A.I.R.	Faculty Attempting to Improve Retirement
FCPHE	Faculty Coalition for Public Higher Education
FTB	Franchise Tax Board
LADSA	Los Angeles Deputy Sheriffs' Association
LAUSD	Los Angeles Unified School District
OCDE	Orange County Department of Education

L E G E N D OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

<u>ABBREVIATION</u>	<u>ORGANIZATION</u>
PARS	Public Agency Retirement System
PERF	Public Employees Retirement Fund
RPEA	Retired Public Employees Association
SACRS	State Association of County Retirement Systems
SBMA	Supplemental Benefit Maintenance Account
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
START	State Teachers' Automation Redesign Team
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
UTLA	United Teachers of Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees, Retirement and Social Security
Senate PE&R	Senate Public Employment and Retirement